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Report Highlights:

Mexican coffee production for MY 2004/05 is not expected to increase from the current year, due to large global supplies, low international prices, and insufficient government financial support. However, Mexican producers are increasingly turning away from conventional coffee production to organic production as a way of closing the large gap between production costs and market prices. The Government of Mexico (GOM) is providing limited support to coffee producers to help them through the current crisis.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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TABLE OF CONTENTS

SITUATION I. SITUATION AND OUTLOOK	3
SECTION II. STATISTICAL TABLES	4
PS&D, Coffee, Green	4
Trade Matrix	5
SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING.....	6
PRODUCTION	6
CROP AREA	6
YIELDS	6
CONSUMPTION	6
TRADE	7
MARKETING	7
POLICY	7

SITUATION I. SITUATION AND OUTLOOK

Coffee Situation and Outlook: Mexican coffee production for MY2004/05 is expected to remain at the same levels as MY 2003/04, due to large supplies, historically low coffee prices, and insufficient government support programs. Mexican growers are turning away from conventional coffee production to organic and specialty coffee to reduce their production costs and recoup the higher prices these types of coffees normally command. MY 2004/05 planted and harvested areas are expected to remain the same as MY 2003/04 acreage. Government authorities are supporting domestic coffee producers in facing the current crisis through the implementation of financial and marketing strategies.

SECTION II. STATISTICAL TABLES

PS&D, Coffee, Green

PSD Table						
Country:	Mexico (1000 60-Kg. Bags) (Million Trees) (1000 hectares)					
Commodity:	Coffee, Green					
	2003		2004		2005	
	Old	New	Old	New	Old	New
Market Year Begin	10/2002		10/2003		10/2004	
Area Planted	730	730	730	730	0	730
Area Harvested	600	600	600	600	0	600
Bearing Trees	700	700	700	700	0	700
Non-Bearing Trees	180	180	180	180	0	180
TOTAL Tree Population	880	880	880	880	0	880
Beginning Stocks	0	0	0	0	0	0
Arabica Production	4200	4200	4500	4365	0	4365
Robusta Production	150	150	150	135	0	135
Other Production	0	0	0	0	0	0
TOTAL Production	4350	4350	4650	4500	0	4500
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	4350	4350	4650	4500	0	4500
Bean Exports	3200	3200	3500	3350	0	3350
Roast & Ground Exports	20	20	20	20	0	20
Soluble Exports	180	180	180	180	0	180
TOTAL Exports	3400	3400	3700	3550	0	3550
Rst, Ground Dom. Consum	500	500	500	500	0	500
Soluble Dom. Consum.	450	450	450	450	0	450
TOTAL Dom. Consum.	950	950	950	950	0	950
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	4350	4350	4650	4500	0	4500

Trade Matrix

COFFE BEAN, GREEN			UNITS: Metric Tons		
Exports to:			Imports from:		
Destination	CY 2002	CY 2003	Origin	CY 2002	CY 2003
U.S.	95,873	64,689	U.S.	2,323	334
Other			Other		
Switzerland	10,658	24,487	Brazil	7,174	13,688
Total of Others	10,658	24,487	Total of Others	7,250	13,668
Other not listed	39,866	36,975	Other not listed	51	0
Grand Total	146,397	126,151	Grand Total	9,624	14,002

Source: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January, 2004.

Note: Figures are in green bean equivalents.

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

PRODUCTION

Mexican coffee production for MY 2004/05 (Oct-Sept) is forecast to remain at the same production levels as in MY 2003/04, due to large global coffee supplies, extremely low international prices, and insufficient federal government financial support. The MY 2003/04 production estimate was revised downward 3.2 percent from the initial estimate, due to these same reasons. The production estimate for MY 2002/03 remains unchanged.

Due to its advantageous geographical and climatological conditions, Mexico has been able to produce various types of coffee. The states of Chiapas, Veracruz, Puebla and Oaxaca, account for nearly 90 percent of the Mexico's high-quality coffee production. Moreover, 70 percent of the state of Chiapas is capable of producing specialty and organic coffee and is the main national producer of both of these types of coffee. The inability to recover production costs for conventional coffee with the prevailing low international prices was the motivating factor for many Chiapas coffee producers to switch to organic and specialty coffee production, since organic production practices do not allow the use of chemicals, fertilizers, and pesticides. The cost of production of a "quintal" (46 kilograms of dry unroasted "gold" coffee) of the Mexican blend on international markets is between \$500.00 to \$550.00 pesos (US\$ 43.82-US\$ 48.20) for conventional coffee, while the international market sets the price for this at US\$ 350.00 pesos (US\$ 30.67).

In Chiapas, state authorities have supported farmers in surmounting the current crisis brought on by extremely low international prices by implementing certain financial and marketing strategies (see marketing section) and by providing technical support and advice on crop diversification and land-use strategies (i.e., exotic flowers and forest products).

CROP AREA

Planted area for MY 2004/05 is forecast to remain unchanged from the previous year's estimate. Mexico is proposing to the International Coffee Organization (ICO) that member countries not increase their planted area until the coffee global supply and demand situation improves for producers. Harvested area for MY 2002/03 and MY 2003/04 remain unchanged to reflect recent official data.

YIELDS

Yields continue to vary widely in Mexico due to variations in crop care. However, due to expected improvements in cultural practices, good weather, an ample water supply, and more young trees coming into production, producers are expecting a slight increase in yields. Although there are projects to promote the cultivation of the more pest-resistant *robusta* variety, Mexico's production continues to be mainly of the *arabica* variety; approximately 90 percent of bearing trees are of the *arabica* variety. For MY 2004/05, this situation is expected to prevail.

CONSUMPTION

Total domestic coffee consumption in MY 2004/05 is expected to be similar to the previous year's estimate despite the fact that producer associations are confident that by the end of this year the world supply-demand scheme will improve, overcoming the current coffee global crisis thereby increasing exports. Consumption for MY 2003/04 is kept unchanged as well as figures for MY 2002/03.

TRADE

MY 2004/05 coffee exports are expected to be similar to MY 2003/04 levels, due to the aforementioned factors, such as low international prices. For MY 2003/04, exports are revised downward from the previous estimate as production has decreased, due to low international prices which growers claim to be below Mexico's cost of production. For MY 2002/03, coffee exports remain unchanged to reflect updated data from the Mexican Coffee Council (CMC) and final government data. About 78 percent of total Mexican coffee production is exported and, of that, the majority – approximately 65 percent – goes to the United States.

MARKETING

Among the strategies that have been implemented to increase the value added to coffee, the most important are related to quality improvement and conservation of the environment. Currently, coffee producers are being trained in processing techniques, such as the correct use and handling of coffee during the wet milling process, which enables them to produce a higher-quality coffee, create new commercial chains and new coffee brands. Traditionally, Mexican producers sell their coffee in the green bean stage.

The “Fund for the Stabilization and Reordering of the Coffee Sector” is a program under the GOM's *“Alianza para el Campo”* (Alliance for the Countryside) is a support mechanism which guarantees the producer a certain income via a pre-established target price for coffee when international coffee prices are below determined levels. Following ICO Resolution 407 directives, Mexico implemented the “Low Quality Coffee Withdrawal Program” to avoid exporting low-quality coffee. Also, the Mexican Coffee Council recently initiated a campaign to promote increased domestic coffee consumption and to change the international perception of Mexican coffee to one of high quality. For example, it has introduced the “Café de Mexico” seal, which is now being used as a symbol to assure the consumer of the identity, pureness and quality of Mexican coffee.

POLICY

Reportedly, the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Foodstuffs (SAGARPA) along with state governments, implemented the support program called “Rules of Operation of the Coffee Stabilization Fund” for coffee growers in 12 states. Although the financial support received by producers through this program is insufficient, producers have been able to benefit from the technical support provided in order to learn how to classify the different Mexican coffee varieties so as to obtain the best quality and price for their coffee.

Currently, the Chiapas state authorities are proposing the implementation of a Mexican Official Standard (NOM) for the denomination of origin of coffee from Chiapas. This NOM establishes the characteristics, specifications, and test methods that authorized users must comply with in order to produce, process, and trade produce under the “Café Chiapas” denomination. The objective is to ensure the quality of Chiapas coffee to the final consumer, thereby repositioning the image of Chiapas coffee in the domestic and international markets.